




The City of Lynchburg, Virginia

MEMORANDUM

TO: City Council

FROM: L. Kimball Payne, III, City Manager 

DATE: August 21, 2003

SUBJ: Compensation Philosophy

In addition to the two articles already provided to Council, the purpose of this memorandum is to provide additional background information to assist in the discussion regarding the articulation of a compensation philosophy for employees of the City of Lynchburg.

Once a compensation philosophy for the organization has been developed, the intent will be to measure the present pay plan against the philosophy for consistency. The pay plan should then be modified to more closely match the principles and goals of the compensation philosophy. The degree and speed of the complete implementation of a new pay plan will depend on the dedication of resources toward that task.

Council's attention is first directed to Attachment #1, "City of Lynchburg Compensation Policies and Practices" presented to the Lynchburg Police Department in June. This presentation is very similar to one given to City Council in February, but was modified by Human Resources for general police training. It places issues of interest to the police officers in the context of broader city policies and practices.

Many of the issues of importance to the police department are similar across the organization. While turnover and staffing issues in the police department may result in significant discussion on how to address them, it is my intent, and my commitment to all the city employees, that a compensation philosophy will be developed that will have broad applicability across the entire city organization. I believe that the principles and goals of a compensation philosophy should apply equally to all city employees. Although there may be reasons to treat some departments differently with respect to the implementation of the plan, those reasons should be clearly understood.

Pages 5 through 11 of Attachment #1 describe the City's present pay policy and how it is administered.

Some of the perceived problems with the current pay plan are as follows:

- The lack of a clearly articulated compensation philosophy provides no basis by which to measure the appropriateness of the pay plan.
- The current pay plan is 10 years old and issues that were important to employees ten years ago are still of concern.
- While the plan ranges are kept relatively competitive with respect to market comparisons, individual pay often lags behind market. Overall, average employee pay is at approximately 85% of market. In addition, the use of a three year average to define market pay may not be responsive enough to rapidly changing circumstances.
- In order to attract and hire qualified applicants, salaries closer to the market average must be offered. This results in resentment from existing employees whose pay is increasingly below the average.
- For certain positions with a large number of incumbents there is little difference in pay for individuals with different lengths of service.
- There is no mechanism to periodically advance employees through the pay range past the midpoint/market toward the maximum. This and the two previous bullets produce the phenomenon referred to as "compression."
- The above leads to a lack of predictability about how an individual's salary will change over the years. For many, the only way to receive a substantially higher salary is to be promoted, a challenge for positions with a large number of incumbents. This is a particular issue of concern in the police department.
- Turnover has increased in some departments and there has been difficulty recruiting for some positions.
- Changes implemented as the pay plan has evolved (e.g. the elimination of step increases) have disappointed the expectations of some employees.

For several months a representative sub-committee of the Employee Committee has studied this matter and developed a series of recommendations that are forwarded to Council in Attachment #2. I believe that these recommendations can be used as the basis for the City's compensation philosophy. Human Resources has also provided some thoughts for the compensation philosophy that are included in Attachment #3. Finally, three examples of compensation philosophy's from other organizations, the Commonwealth (draft, Attachment #4), the Southeastern Public Service Authority, SPSA, (Attachment #5) and Spotsylvania County (Attachment #6).

There are many questions that need to be addressed during the development of a compensation philosophy, some related to broad policy issues, others more technical. Council's discussion should focus more on the broad policy issues but questions about the practical application, potential cost, and management of the pay system will naturally arise. To help put some focus on the discussion, the following questions may prove helpful:

- What are the overall goals of a compensation program?
- What principles should govern the program?
- On what should compensation be based?
- How competitive should the pay plan be with respect to "market"? This is often referred to as "external equity" (For example, is there some percentage of market below which actual pay should not fall?)
- How important is consistency of treatment within the plan? This is often referred to as "internal equity."
- Which organizations should be considered our "market"?
- What role should performance play in determining salary increases?
- Should longevity be rewarded and under what circumstances?
- Is "compression" an issue of concern?
- Recognizing that compensation consists of both pay and benefits, how should they be combined to produce the desirable result?
- Is there an acceptable level of turnover for the organization?
- Should there be one overall compensation philosophy for the organization or is it acceptable to have different philosophies for different departments?
- If there is one philosophy for the entire organization, can there be different means of implementing the philosophy in different departments as long as consistency with the philosophy is maintained?

I look forward to our discussion on Tuesday. If you need any clarification before then, please do not hesitate to call.

Attachments

cc: Leadership Team

City of Lynchburg Compensation Policies and Practices

Lynchburg Police Department
Training
June 2003

Today's Topics

- Current pay policies and practices
- 2002 market data and analysis
- Aligning compensation policies and practices with organizational needs and wants

Current Pay Policies and Practices



HR Role

- Manage current policy
- Answer questions
- Maintain consistency
- Gather and analyze data
- Look at pay from organization wide perspective

Don't shoot the messenger!

Pay Policy

- “The City’s goal is to attract, reward and retain employees that are qualified, competent and representative of the community. Toward this end, the City develops and maintains a Pay Plan that reflects market competitiveness and alignment with organizational goals.”

Pay Policy

➤ Pay Structure

- ✦ Each position is assigned to the pay plan - a set of pay grades with min, midpoint and max
- ✦ Classification process assigns position to a grade
 - Primarily a market-based decision
 - "Reasonableness" view of internal equity
 - No longer using a point factor system
- ✦ Four distinct sets of ranges
 - General
 - Community Safety (sworn police/fire)
 - PW Engineer Broad Band
 - PW Associate Broad Band

Structure Features

➤ General structure

- ↳ 27 ranges
- ↳ 55% spread between min and max
- ↳ Linked to the market average at the midpoint

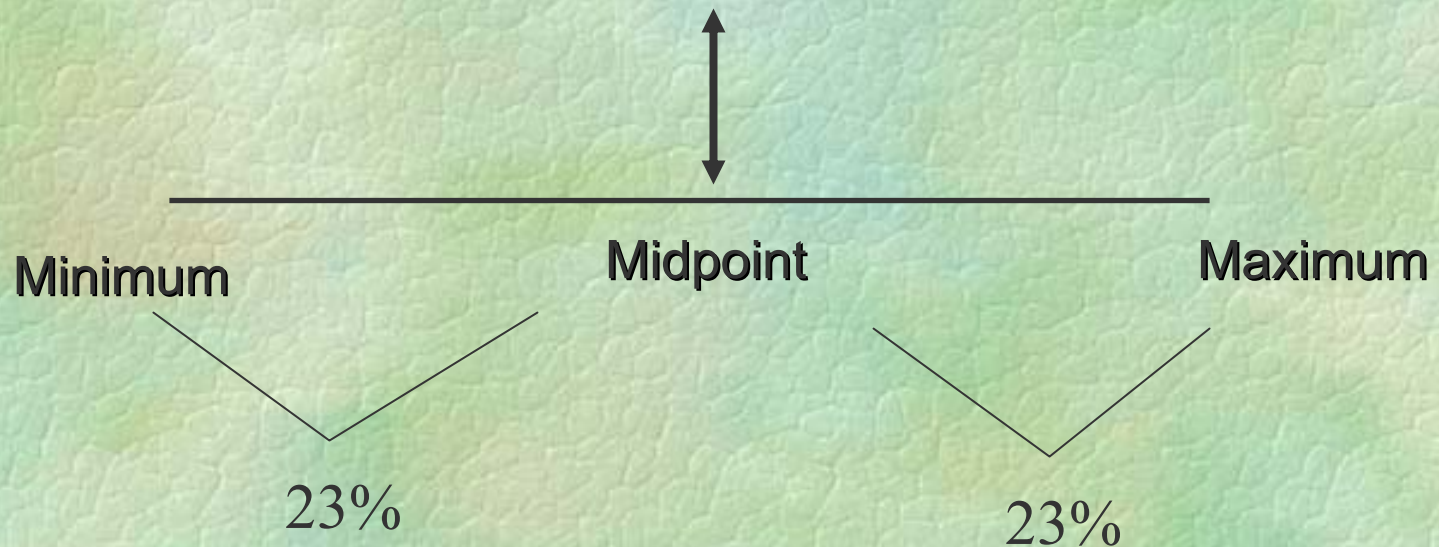
➤ Community Safety structure

- ↳ 7 ranges (ranges 71-76 split to accommodate rates for Fire/EMS work schedule of 2912 hours)
- ↳ Recruit and FFII/POII - 45% spread
- ↳ All others - 60% spread
- ↳ Linked to market average at the midpoint

➤ Engineers and PWA

Structure Design

Market Average



Structure Maintenance

- Collect pay and benefit information for benchmark positions
 - ↪ Collective wisdom of many organizations to determine what a job is worth
 - ↪ Local, regional and some national
 - ↪ 3-year averages
- Compile internal information
 - ↪ Turnover
 - ↪ Recruitment experience
 - ↪ Actual employee pay

Who is Our "Market"

- Varies depending upon the job, but typically:
 - ↙ Other municipalities
 - ↙ Private companies that have the same kinds of jobs
 - ↙ Organizations that compete for/attract the same people
 - ↙ Those that will share pay data with us

Structure Maintenance

- Consider adjustments to grade assignment when:
 - ↪ Range midpoint lags the 3-yr. market avg.
 - ▲ grades 1-8 <95% of 3-yr. average
 - ▲ grades 9-22 and public safety <90% of 3-yr. Average
 - ▲ grades 23-27 <85% of 3-yr. average
 - ↪ Turnover is high
 - ↪ Recruitment is difficult
- Adjustments made based on available resources, departmental input and organization's goals

Total Compensation is the Sum of Two Parts

➤ Direct Pay

- ↪ Salaries
- ↪ Incentives
- ↪ Allowances

➤ Indirect Pay

- ↪ Benefits
 - ▶ retirement
 - ▶ medical/dental
 - ▶ other benefits
 - ▶ paid time off

Direct Employee Pay

- Actual employee pay fits within a range
 - ✦ For community safety, pay is between 77% and 123% of midpoint - 82-118% for Recruit and POIIs
 - ✦ For general structure, pay is between 78% of midpoint and 122% of midpoint
 - ✦ Range accommodates variety of abilities, skills and level of experience
- New Hire Pay is determined by range, what a person brings to the table and what it takes to hire the candidate of choice
- Actual employee pay moves within the range based on annual increase - merit or general wage
- There are limited ways to increase actual salary other than annual increases

Practices Unique to LPD

➤ Education Incentive

- ✦ Until 2002 up to 12% additional pay awarded for AAS for sworn officers hired before 1994
- ✦ In 2002 the incentive "merged" into base pay

➤ New Hire Pay Based on Experience

- ✦ Formula used to bring experienced officers in at above minimum rate of pay

➤ Previous policies create pay differences that will be with us for a long time

Potential Pay Increases

Action	Requirements	Decision-Maker	Pay Action
Move to Minimum	<ul style="list-style-type: none"> Pay is below new min when structure adjustment is made 	HR w/dept agreement and Budget Appropriation	To the new minimum
Reclassification	<ul style="list-style-type: none"> Significant change in duties based on results of job review 	Departmental request, HR recommendation and Budget Appropriation	5% of midpt of new grade or to min of grade, whichever is higher
Equity Increase	<ul style="list-style-type: none"> Salary lags peer group due to effects of past variances Salary significantly behind the market or others in same title due to past hiring regulations EE has taken on additional responsibilities but doesn't meet reclass criteria Retain an EE with a competing job offer 	Department with HR agreement and Budget verification of available departmental funding	Up to midpoint of grade
Promotion	<ul style="list-style-type: none"> Move to a higher level position with distinctly different duties and responsibilities 	Departmental Hiring Official	10% or to min of new grade, whichever is higher

Indirect Employee Pay

- Medical/Dental (\$2616 annually)
- Retirement/Group Life (15.25% of salary)
- FICA (7.65% of salary)
- Deferred Comp (\$130 annually)
- Paid Time Off (36+ days annually)
- Unemployment Comp (\$100k organiz)
- Worker's Comp (\$550k organiz)
- Employee Assistance (\$20k organiz)
- Flexible Spending Plans (\$10k organiz)
- Training Opportunities (\$30k + organiz)

2002 Market Data and Analysis



2002 Summary

January 2003

- Data collected for 182 benchmark positions
- The benchmarks include 812 employees
- Overall, benchmark positions pay ranges are 91.47% of market
- Overall, average actual pay for employees in benchmark positions is 85.5% of market
- Citywide voluntary turnover was 4.1% through 11/12/02
- Overall, ability to recruit is adequate

Under Current Policy, Positive Indicators

- Vast majority of ranges are competitive with the market
- Employee pay is within the competitive ranges therefore, is considered competitive
- Turnover is fairly low
- In general, we are attracting enough qualified applicants for vacant positions and have usually been able to hire our candidate of choice

Total Turnover Trends

Total Turnover: Retirement, Dismissal (including initial employment period),
Death and Resignation (including resignation pending dismissal)

Year	Citywide	Public Safety (Uniformed police and fire and LynCom)	Uniformed Police
1998	7.4% (81/1091)	5.3% (19/358)	5.7% (9/157)
1999	10.7% (122/1133)	6.8% (25/363)	9.3% (15/161)
2000	12.6% (145/1145)	9.3% (34/363)	10.5% (17/161)
2001	7.9% (91/1147)	3.8% (14/362)	2.5% (4/159)
2002	7.8% (90/1153)	8.5% (31/363)	13.2% (21/159)

Voluntary Turnover Trends

Voluntary Turnover: Resignation (including resignation to accept another City or Constitutional position, but excluding pending dismissal)

Year	Citywide	Public Safety (Uniformed police and fire and LynCom)	Uniformed Police
1998	5.4% (59/1091)	2.7% (10/358)	3.8% (6/157)
1999	7.4% (84/1133)	4.4% (16/363)	5.5% (9/161)
2000	6.8% (78/1145)	3.3% (12/363)	3.7% (6/161)
2001	4.7% (54/1147)	.5% (2/362)	.6% (1/159)
2002	4.6% (53/1153)	5% (18/363)	8.8% (14/159)

2002 Turnover Examples

	<u>Vol.</u>	<u>Total</u>
➤ Police Officer II	➤ 13.5%	17%
➤ Police Officer III	➤ 10%	16%
➤ Social Worker	➤ 9.5%	9.5%
➤ Youth Counselor	➤ 2.4%	9.8%
➤ CPS Investigator	➤ 20%	20%
➤ Civil Engineer I/II	➤ 33%	33%
➤ Benefit Program Spec	➤ 3.6%	7%

Recruitment Examples

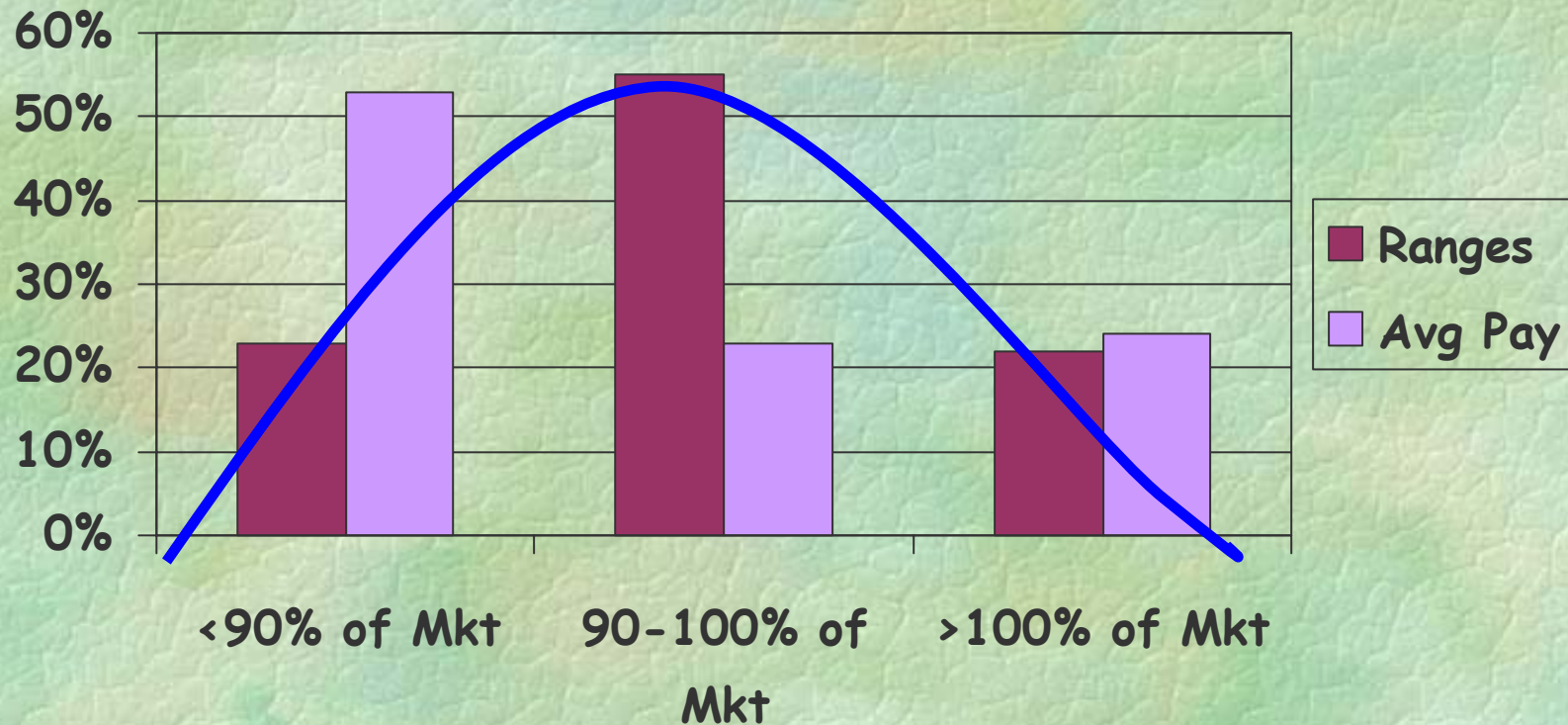
- Police Applicants - 266
 - ↳ 146 took entry test
 - ↳ 104 passed test or were already certified
- Fire/EMS Applicants - 136
 - ↳ 92 took entry test
 - ↳ 33 passed test
- Aide I Applicants - 89
- Bldg. Maint. Mech. Applicants - 21
- Admin Assist Applicants - 115

Benchmark Positions Compared to Market by Category

Category	Jobs	# EE	Voluntary Turnover	Structure Midpoint to Market Average			Individual Pay to Market Average		
				<90%	90%-100%	>100%	<90%	90%-100%	>100%
Admin Support	12	52	5.6%	50.0%	6.0%	33.3%	71.2%	21.2%	7.7%
Executive	14	14	0.0%	50.0%	28.6%	21.4%	42.9%	35.7%	21.4%
Mgr/Prof	68	134	5.8%	25.0%	50.0%	25.0%	52.2%	20.1%	27.6%
Sworn Police	7	155	8.8%	0.0%	100.0%	0.0%	54.5%	31.7%	13.8%
Supervisory	18	28	3.2%	22.2%	50.0%	27.8%	50.0%	25.0%	25.0%
Tech/PP	55	235	4.1%	14.6%	69.1%	16.4%	60.9%	20.9%	17.9%
	174	618		23.1%	54.9%	22.0%	53.2%	23.3%	23.5%

Market Comparisons

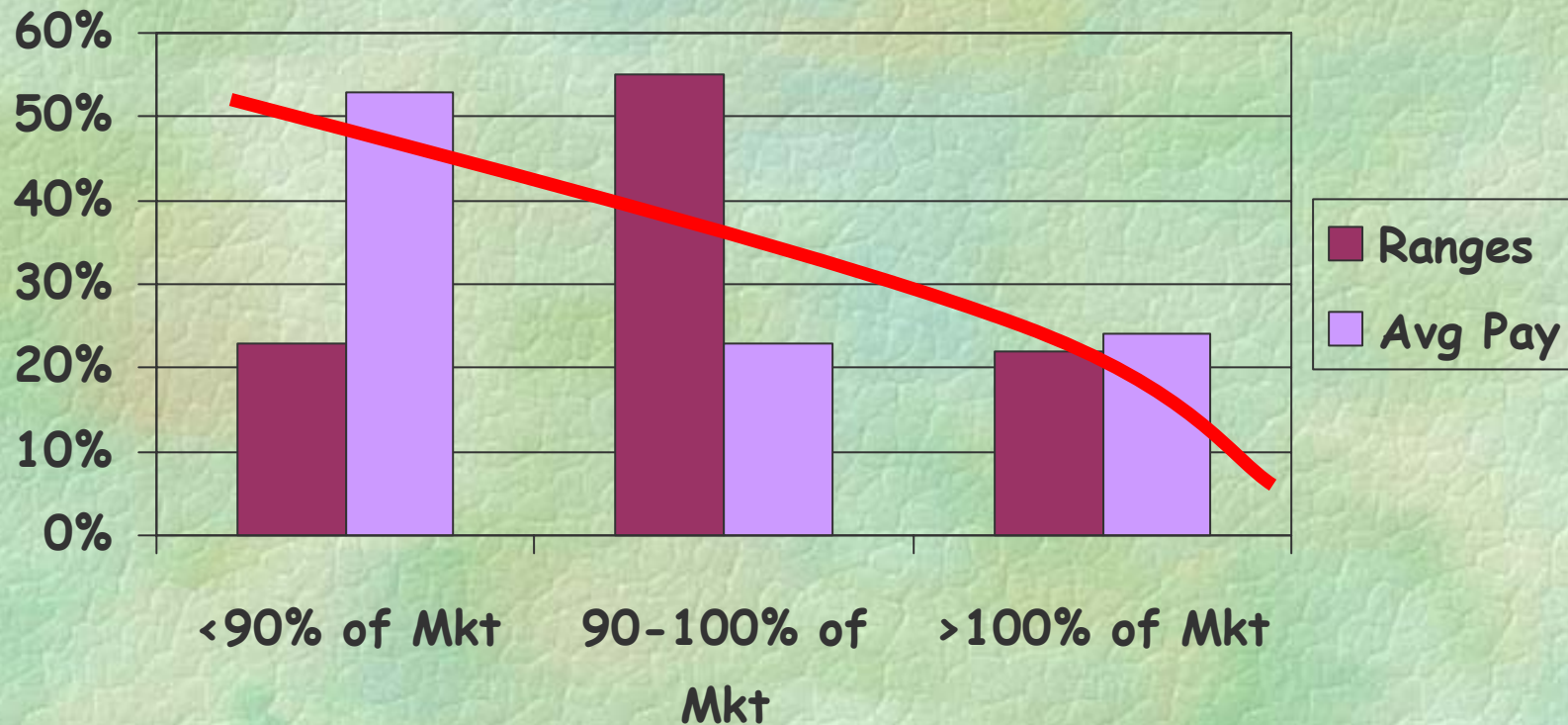
Range and Avg Actual Pay



Organizational Summary Data

Market Comparisons

Range and Avg Actual Pay



Organizational Summary Data

SALARY SURVEY SUMMARY - Sworn Police

As of January 2003

Position	3-year Market Average (2000 - 2002)	Range Midpoint to 3-year Mkt Avg	Current Employee Average Salary	Employee Avg Salary to 3-year Mkt Avg
Police Recruit	27,556	97.48%	26,832	97.37%
Police Officer II	35,223	98.03%	30,287	85.99%
Police Officer III	41,279	98.46%	39,426	95.51%
Police Lieutenant	54,778	93.79%	48,082	87.78%
Police Captain	62,686	96.72%	61,167	97.58%
Police Major	74,329	96.26%	69,326	93.27%

Under Current Policy, Negative Indicators

- Overall, Average Actual Employee Pay is 85.8% of market - five year low
- Police Officer turnover increased significantly over last year and slightly over previous years
- Increasingly vocal dissatisfaction with pay of longer term employees compared to new hires

Aligning Compensation Policies and Practices with Organizational Needs and Wants

What Do We Want Compensation to
Do For Us?

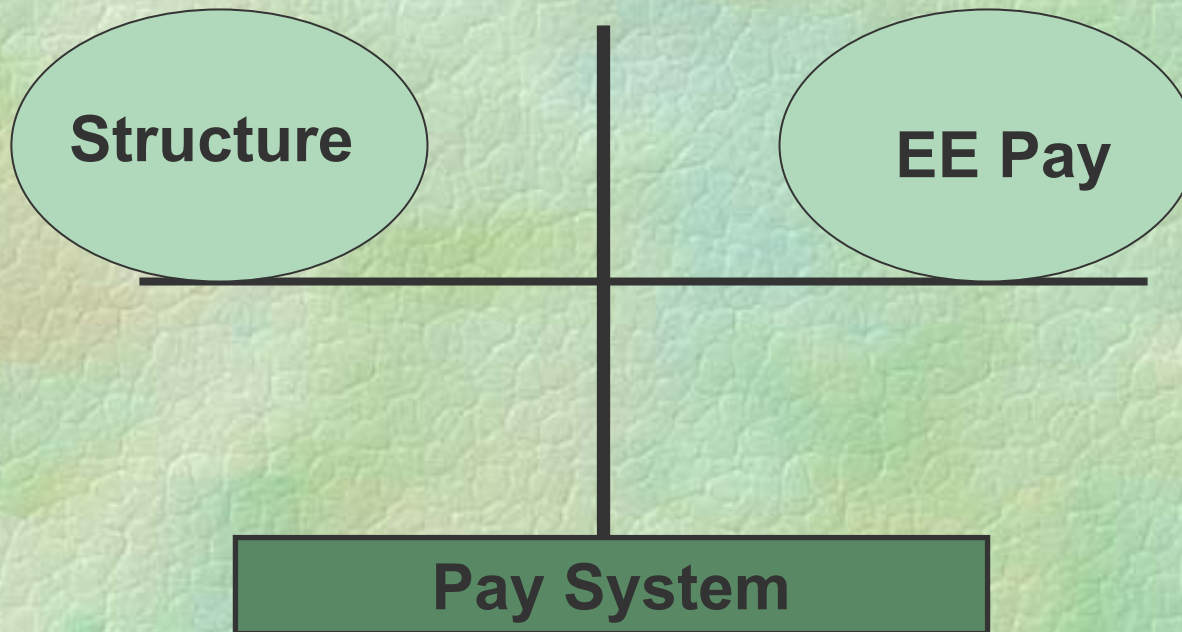
Red Flags

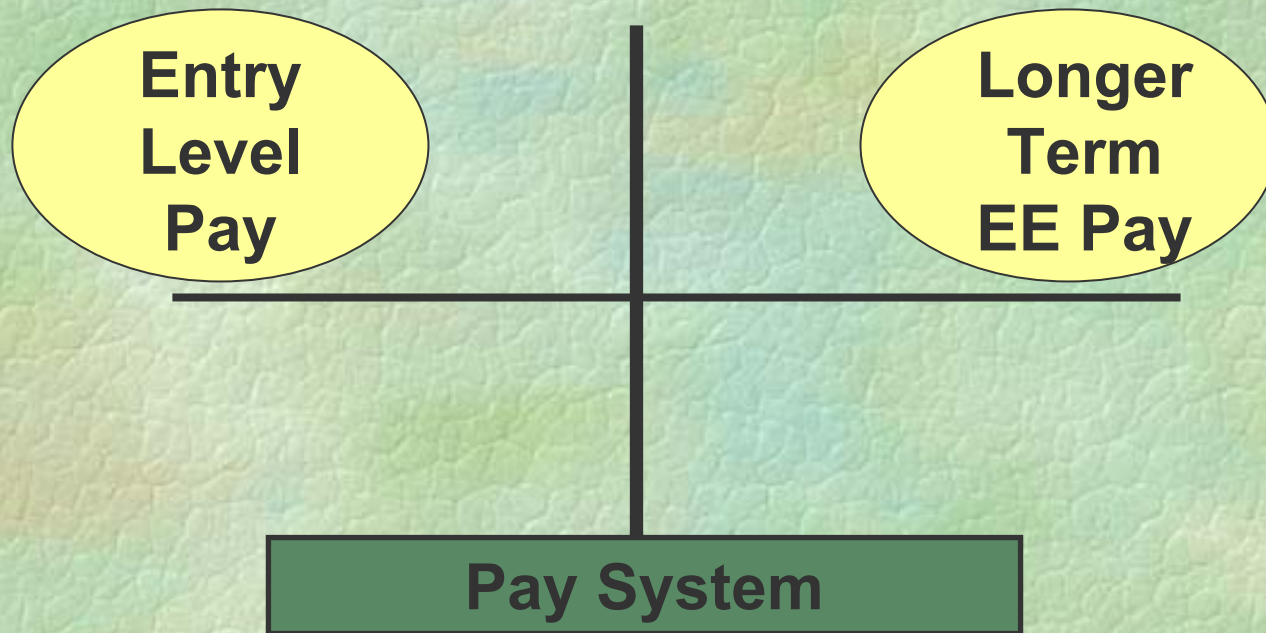
- Current policy is 10 years old
- Ongoing concerns about the impact of policies and practices
- Resources dedicated to maintaining competitive structure perhaps at the expense of employee pay, certainly contributing to "compression" at beginning of ranges

Pay Decision Factors

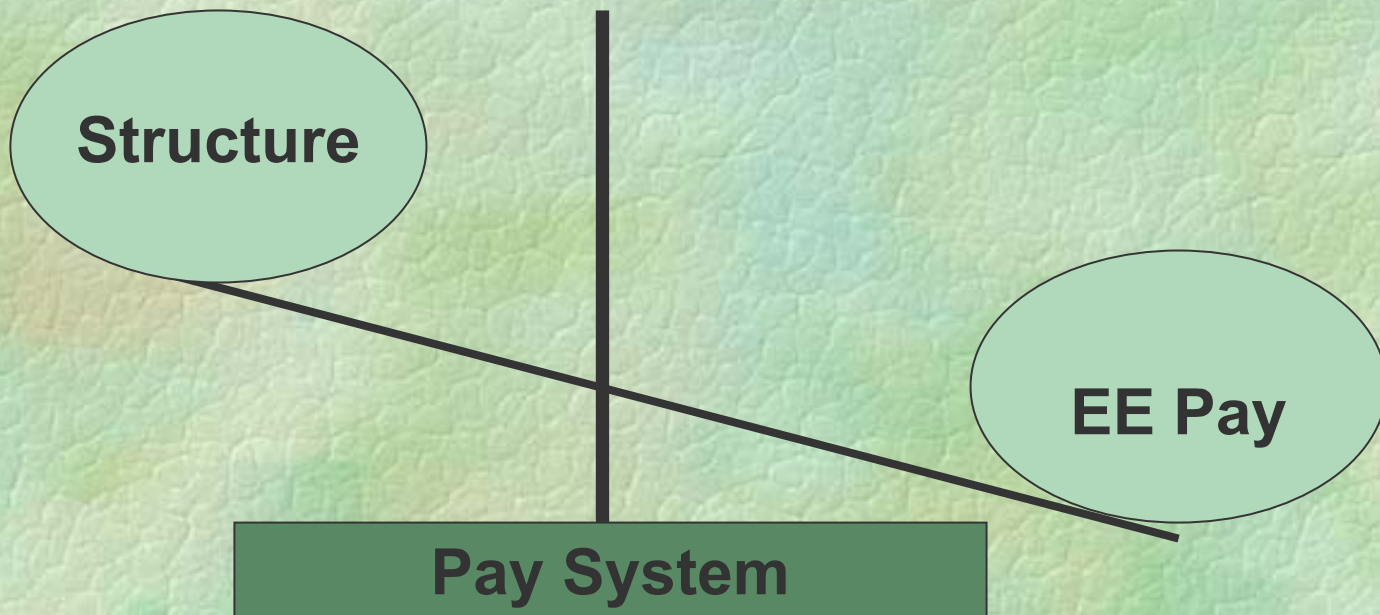
- Business Strategy
- Compensation Philosophy
- Organizational values and principles
- Economic realities
- Market forces
- Balance of direct and indirect pay
- Internal value of the job
- Individual factors such as performance, length of service, experience, education

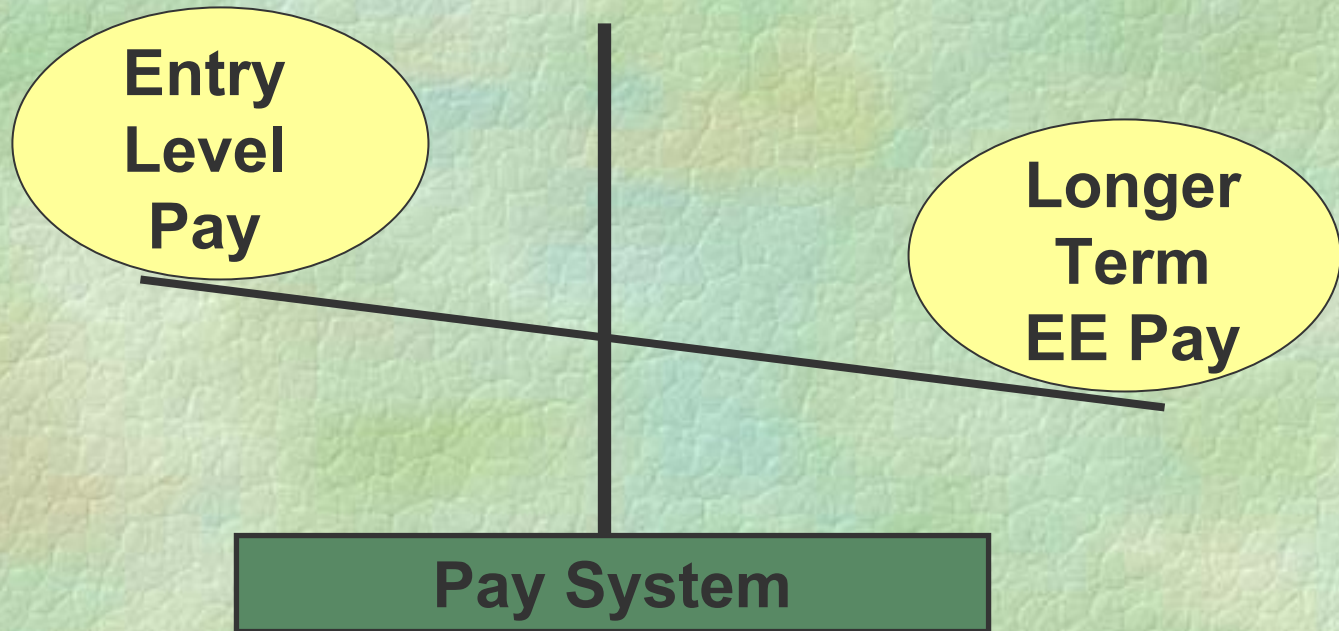
Balance is Needed for Effectiveness





For a Variety of Reasons, Our System is Skewed





Next Steps

- Develop a Pay Philosophy and action plan for FY05 Budget Proposal (July 1, 2004)
 - ↳ EE Committee
 - ↳ LPD Committee
 - ↳ City Council Retreat Discussion
 - ↳ Leadership Team Retreat Discussion

Questions?